Handy & Harman 1967 Annual Report

Handy & Harman 1967 Annual Report To Shareholders

The Annual Meeting of
Shareholders of Handy & Harman
will be held on April 17, 1968
at Morgan Guaranty Hall,
15 Broad Street (28th floor),
New York City at 11:00 am.

Our cover photograph reflects in impressionistic values the beauty and sophistication of metals. It is composed from some of the Handy & Harman products you will see in the Pictorial Presentation beginning on page 7.

To Our Shareholders:

The year 1967 was an outstanding one for our company in terms of growth through earnings and acquisitions. Consolidated income after taxes for the year 1967 for Handy & Harman and subsidiaries amounted to $3,647,000, a new record and an increase of 6% over 1966. These earnings, which have been restated to reflect acquisitions made during the year on a pooling of interest basis, were equivalent to $1.84 per share of common stock, compared to $1.78 for 1966. Consolidated sales for 1967 also set a new record and amounted to $182,519,000, compared to $170,926,000 for 1966.

Profits for 1967 apply to continuing operations and are before special charges totaling $184,000 arising from losses, both from the unprofitable operation and from the sale of two small divisions of Maryland Specialty Wire, Inc. Under the pooling of interest concept it is necessary to show the retroactive effect of such losses even though the sale of both divisions, while made in 1967, had been completed prior to our acquiring Maryland.

Operating expenses, excluding the cost of the precious metals we used, increased during 1967 for two major reasons. First, and most significant, were increases in pay rates and fringe benefits; and second, were substantially higher interest costs due to an increased level of borrowings. The increase in borrowings in turn was caused by much higher silver prices and by the need to finance larger than normal commitments for silver because of very uncertain market conditions, and because of the curtailment of our usual sources of supply by the prolonged strike at most of the major non-ferrous metal refineries in the United States.

Every year we have adjustments to income reflecting the cumulative effect of all of the differences between cost and market of the precious metals we use. These adjustments, which are not determinable until year-end, are usually immaterial. However, the addition to income in 1967 from such adjustments was somewhat larger than normal due to the exaggerated effect of sharply fluctuating silver prices.

A five year summary of operations, all on a restated basis, is included in the financial section of this report.

Growth Through Diversification and Acquisition

Although precious metals have always been and indeed will continue to be the heart of our business, our long range growth plans are designed around a program of diversification into other specialty metals areas. Our present objective is to obtain ultimately at least half of our earnings from non-precious metal operations and to do this with full emphasis on the continued growth of the precious metals part of our business.

During 1967 we made significant progress toward this objective through the acquisition of four new wholly-owned subsidiaries and two new joint ventures. The largest of these was Maryland Specialty Wire, Inc., in Cockeysville, Maryland, a producer of fine specialty steel wire for industry. The transaction included Pennsylvania Wire Rope Corporation, a wholly-owned subsidiary of Maryland Specialty Wire, which is located in Williamsport, Pennsylvania, and manufactures specialty wire rope products for uses such as emergency brake cables for automobiles and control cables for aircraft. Maryland Specialty Wire also has a 50% interest in each of two other companies. One, Hi-Alloys, Inc., also in Cockeysville, is jointly owned with Stora, a large Swedish steel company; and the other, Rigby-Maryland, Ltd., located in England, is jointly owned with John Rigby & Sons, Ltd., an English wire drawing company.

In September, 1967, we acquired Lucas-Milhaupt, Inc., a producer of metal rings and stampings headquartered in Cudahy, Wisconsin; and on December 29, 1967, the last business day of the year, we purchased Ipsenlab of Canada, Ltd. Ipsenlab is located in Toronto and is engaged in the heat treatment of both ferrous and non-ferrous metals on a custom basis, serving manufacturers mostly in the Greater Toronto area.

We now have a total of seven wholly-owned subsidiaries and three jointly owned companies. In addition to those described above, the others include Handy & Harman of Canada, Ltd.; Handy & Harman Tube Co., Inc.; Orange Roller Bearing Co., Inc.; and Electric Thermometers, Inc., which is 50% jointly owned with Degussa of West Germany.

Growth Through Internal Expansion

Throughout the parent company and subsidiaries we are each year carrying forward carefully planned capital expenditure programs geared to our needs and the availability of internally generated funds. During 1967 we re-invested about $2,600,000 throughout the parent company and subsidiaries in capital expansion and improvements, and we are budgeting a similar amount for 1968. These figures compare with capital expenditures of about $2,000,000 in 1966. An analysis of where our money was generated and how it was spent during 1967 appears on page 18 of this report.

During the year we completed a major extension of our main silver plant in Fairfield, Connecticut, which has added 25% more manufacturing space at that location. We also built an addition to our plant in Los Angeles, providing for expanded refining operations as well as some much needed warehousing facilities for improving distribution on the West Coast of some of our non-precious metal products.

The rest of our capital expenditures were for new equipment and processes, all designed to improve our product capabilities and to reduce costs. Because of our continuing program of expanding and renewing our plants and equipment by re-investing part of our earnings in our business, we are able to provide our people with the best available facilities for efficient and profitable operations.

Research and Development Program Enlarged

The amount allocated for research and development during 1967 set another new high. During the year we expanded our staff and invested in additional modern equipment, and we believe that our knowledge and facilities are fully up to the best available in the several industries in which we operate.

A number of new products and processes were developed in all major areas of our business. One important development was a new process for molten metal atomization to produce alloy powders, and a commercial installation embodying this process is nearing completion at our Fairfield location. Another was an improvement in the process for the recovery of gold from certain electronic refining materials and we expect to gain a larger share of the growing availability of this type of scrap. Also deserving of mention was the development of fine-grained white gold alloys, complementing the yellow gold alloys introduced last year, which provide our customers with better working qualities and fewer rejects. In addition, similar product and process developments took place in our subsidiaries as well as the parent company.

In 1967, its centennial, an important event was marked by Handy & Harman when on May 22 its shares were listed on the New York Stock Exchange. At the start of trading, M. W. Townsend (right), President and Chairman, gave Keith Funston, President at that time of the New York Stock Exchange, a specially designed bimetal replica of the ticker symbol "HNH" assigned to the company. Shares of Handy & Harman were previously traded over-the-counter.

Uncertainty in the Silver Market Affects Our Operations

There have been few years in which the silver market has presented a more confused and unpredictable performance than the one just ended. Since July, when the Treasury stopped sales at the $1.29 price which had been in effect for nearly four years, the silver price has fluctuated violently and has reached record high levels. This condition has created difficulties for our customers as well as ourselves and has resulted in changes in order practices which in some instances have temporarily had an adverse effect on the pattern of our shipments.

The impact of higher silver prices on our business is mixed. Obviously the increased cost of silver results in higher interest charges on the larger volume of borrowings needed to finance our operations. On the other hand, increases in the price of silver also increase the value of our silver inventories. Under the LIFO (last-in, first-out) method of accounting, which we use for the precious metal part of our business, inventories are carried at cost, and increases in market value are handled through a LIFO reserve rather than through the earnings statement. At December 31, 1967, our LIFO reserve amounted to $26,570,000, compared to $9,768,000 at December 31, 1966, and represented a very substantial addition to the value of the assets of the company.

Higher silver prices tend to create broader opportunities for profitable recovery of silver from industrial scrap and refinings, and also emphasize the advantages to be obtained through the use of bimetals, which are combinations of metals rather than solid alloys and which restrict the use of silver to the specific point of need. These products are more profitable for us because of the larger amount of value added through fabrication compared to a solid alloy, and at the same time our customers can benefit from savings in metal costs many times greater than the extra fabrication charges involved.

The paradox about silver is that the price has climbed to record high levels in the face of very large physical supplies. There is no shortage of silver for industrial uses, nor will there be a shortage in the future. The question will be entirely one of price. We are hopeful that greater stability at more reasonable price levels will be restored to the silver market during 1968, which would be extremely helpful to all industries using silver in their operations.

Changes in Directors and Management

Several changes in our Board of Directors and in management occurred during 1967. On April 27, 1967 the Board elected Dr. William H. Newman as a director. Dr. Newman is a professor of business at Columbia University Graduate School of Business. In addition to his duties at Columbia, he is a director of Molecular Dielectrics, Inc., and is a member of several management and economic organizations, including the American Management Association. He is also the author of a number of books and articles and is recognized worldwide as an authority on business organization and administration. We are very pleased to have obtained his services.

On December 31, 1967, Thomas H. Gallagher retired after nearly forty years of valuable service with Handy & Harman. Mr. Gallagher had been a director of the parent company and Managing Director of our Canadian subsidiary.

We report with sorrow the death, on October 18, 1967 at the age of 84, of Gustav H. Niemeyer, director and Chairman of the Executive Committee. Mr. Niemeyer's career with Handy &

Harman started in 1900, and throughout the past sixty-seven years he has had a significant influence on the growth and development of our company. He was elected President in 1938 which office he held until 1953. Thereafter he continued to contribute to the affairs of our company as a director and as Chairman of the Executive Committee. He will be missed by our company and by the many industry and civic organizations which he actively served.

At the meeting of the Board of Directors on April 27, 1967, Judson C. Travis announced his intention not to stand for re-election as Chairman of the Board, although he continues to serve as a director of the company. In recognition of his unusual contribution, the Board voted to accord Mr. Travis the title of Honorary Chairman. M. W. Townsend was elected to the combined office of President and Chairman of the Board.

Dividend Rate Increased

During 1967 quarterly dividends at the rate of 12½¢ a share were paid on the first day of March, June, September and December. In addition, an extra dividend of 10¢ a share was paid on December 1, 1967, bringing total dividends for the year to 60¢ a share. The Board of Directors at its January, 1968 meeting declared a quarterly dividend of 15¢ a share on the common stock of the company payable March 1, 1968.

Our Stock Listed on the New York Stock Exchange

For some time we have been working to fulfill the requirements for listing our stock on the New York Stock Exchange, and it is doubly gratifying that we were able to accomplish this objective during our 100th Anniversary year. As a result of a successful secondary offering of our stock in February 1967, we obtained the necessary number of shareholders, and on April 20, 1967 the Board of Governors of the Exchange approved our application for listing. Trading started on Monday, May 22, 1967, and the letters HNH, the symbol for Handy & Harman, appeared on the ticker tape as the first trade of the day.

Another Record Year Foreseen

The events of 1967 created many problems for us. We, like so many companies, had to adjust to the conditions brought about by the slackness in the economy in general. In our own case we had to deal with the additional problems of a violently fluctuating silver market and a prolonged strike at our major silver suppliers. We are, therefore, pleased that our earnings trend continued to show improvement.

Our projections for 1968 indicate a further advance in earnings, even though many of the problems of 1967 persist along with new developments in 1968. The question of a tax increase is still being debated, and we are now faced with further uncertainties including the extent of the military build-up and the possibility of broader government controls.

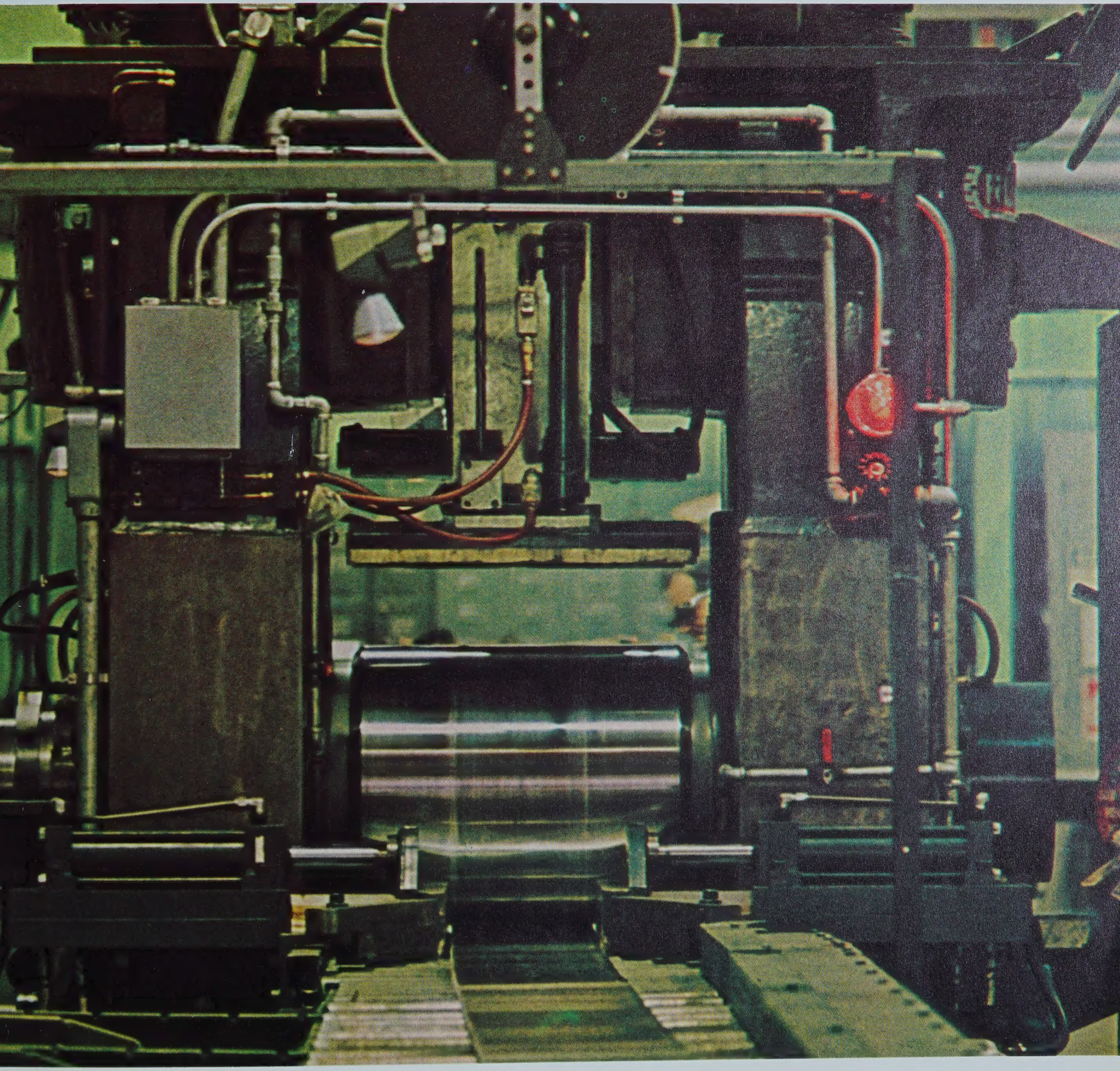
Nevertheless, in the absence of major unforeseen developments in the coming months, we fully expect that 1968 will prove to be another record year for Handy & Harman.

M. W. Townsend

M. WILBUR TOWNSEND
Chairman of the Board
and President
March 13, 1968

The essential strengths of Handy & Harman's operations today rest in the company's broad range of services in specialized fields of metal processing. The pictures on the following pages represent Handy & Harman today-and symbolize our readiness to meet tomorrow's challenge.

(1) New heavy duty breakdown mill for initial rolling of bars from direct chill caster. (Fairfield Plant)



(1)

(2) Direct chill casting equipment has expanded our capacity for producing silver bars. It is capable of turning out twin 1,000 lb. silver alloy bars simultaneously for further processing. (Fairfield Plant)

(2)

(3) "Sandwich" stock for Kennedy half dollar prior to being rolled to coin thickness. (Fairfield Plant)

(4) Handy & Harman's BIMET (silver inlaid in a base metal) destined for sophisticated electrical and electronic applications. (Fairfield Plant)

(3)

(4)

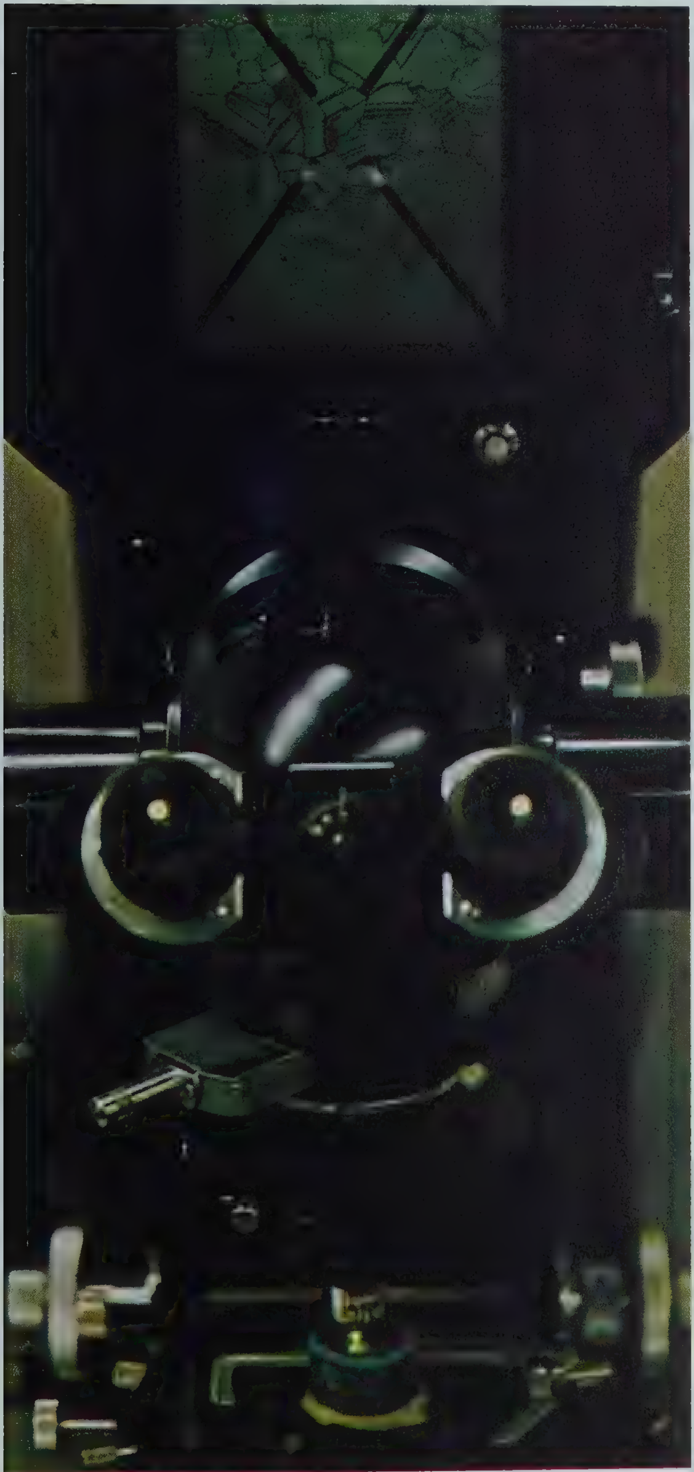
(5) Refining of precious metal scrap is an important part of our operations at Fairfield, as well as at Los Angeles and Toronto.

(6) Enlarged grain structure of metal alloy is projected on metallograph, one of many quality control procedures carried on at Fairfield.

(5)

(7) Silver ready for shipment to leading silversmith for contemporary crafted tableware. (Fairfield Plant)

(8) Gold is a metal which speaks for itself both in jewelry and in many demanding electronic instruments. Pictured here are some of the forms of karat gold which we produce.



(6)

(7)

(8)

(9) Pouring a melt of Easy-Flo brazing alloy at Handy & Harman of Canada.

(10) Automotive parts are processed on conveyorized equipment at Ipsenlab in Toronto.

(11) Orange Roller Bearings are found in such exotic applications as missile guidance systems, liquid oxygen valves, nuclear submarines—as well as in countless industrial uses like machine tools, trucks, pumps and ordnance vehicles.

(12) Orange Roller Bearing Co.'s Metalsmiths Division makes specialized stainless steel processing belts for the plastics, rubber and photographic film industries.

(13) Specialty wire from Maryland Specialty Wire, Inc. finds its way into products ranging from animal cages to diaper pins, from fishing leaders to aircraft components, from nails to heddles.

(9)

(10)

(14) Maryland Specialty Wire's Pennsylvania Wire Rope division fabricates cables like these for automotive parts: emergency brakes, automatic transmissions, tops for convertibles. Others shown include products for office copying machines and materials handling equipment.

(15) High speed tool steel for drill bits is produced by Hi-Alloys, affiliate of Maryland Specialty Wire, Inc. Diameters range from .018″ to .895″.

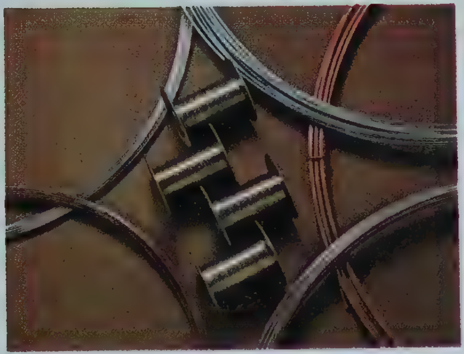
(16) Typical sizes and shapes of stainless steel, nickel and carbon steel tubing from Handy & Harman Tube Co. Applications include hypodermic needles, electronic tube cathodes and aircraft instrumentation.

(17) "Silent Sentry" with heart of platinum, made by Electric Thermometers, Inc., monitors temperature variations as close as .5° F. as in production reactors for synthetic polymers.

(18) Metal rings and stampings are the specialty of Lucas-Milhaupt, Inc. These are typical.

(11)

(12)



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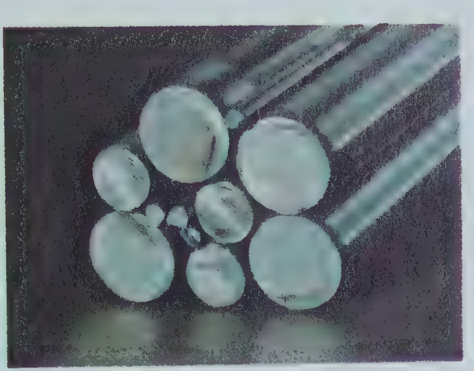

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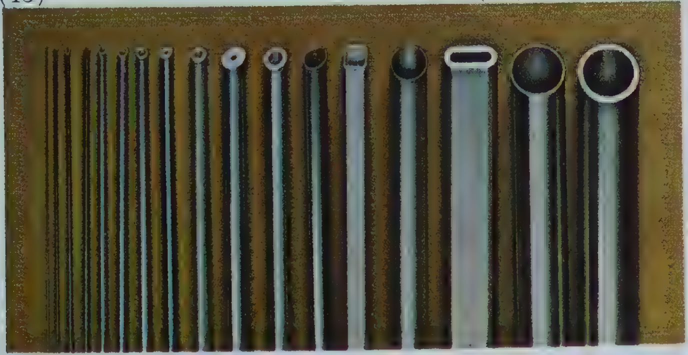

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Directors and Officers

Board of Directors

M. WILBUR TOWNSEND*
THEODORE W. ATKINSON
HOWARD W. BOYNTON*
PHILIP L. CARRET*
CORTLANDT W. HANDY*
WILLIAM H. NEWMAN
PAUL L. PEYTON
JUDSON C. TRAVIS*
FRANCIS H. WEMPLE

Officers

M. WILBUR TOWNSEND
Chairman of the Board
and President

THEODORE W. ATKINSON
Vice President—Production

FRANCIS H. WEMPLE
Vice President
and Treasurer

GEORGE J. PEER
Vice President—Marketing

CHARLES D. COXE
Vice President—Research
and Development

LEIF C. KRONEN
Secretary and Counsel

G. NORMAN HORNER
Controller

General Counsel

BREED, ABBOTT AND MORGAN

Auditors

HURDMAN AND CRANSTOUN

Transfer Agent

MORGAN GUARANTY TRUST
COMPANY OF N.Y.

Registrar

THE CHASE MANHATTAN
BANK (N.A.)

Stock Listing

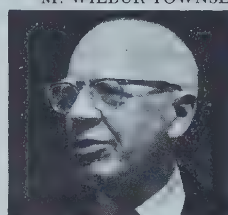
NEW YORK STOCK EXCHANGE

*Member of Executive Committee


THEODORE W. ATKINSON


M. WILBUR TOWNSEND

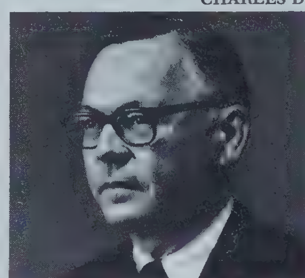

G. NORMAN HORNER


PHILIP L. CARRET


CHARLES D. COXE


CORTLANDT W. HANDY

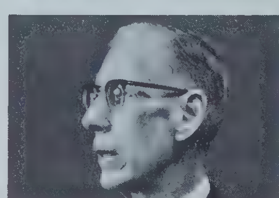

HOWARD W. BOYNTON

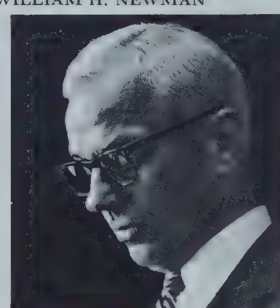

LEIF C. KRONEN


WILLIAM H. NEWMAN


GEORGE J. PEER


PAUL L. PEYTON


JUDSON C. TRAVIS


FRANCIS H. WEMPLE

Five Year Condensed Consolidated Summary of Operations

(Expressed in Thousands)

	1967	1966	Percentage Increase or Decrease	1965	1964	1963
Sales of products and service revenues	$182,519	$170,926	+ 7	$142,898	$128,980	$112,083
Cost of products and services	165,137	154,930	+ 7	130,293	117,980	101,941
Gross Profit	17,382	15,996	+ 9	12,605	11,000	10,142
Selling, general, and administrative expense	8,108	7,712	+ 5	7,068	6,639	6,346
Interest on loans	2,391	2,042	+ 17	997	813	595
Other deductions (income)—net	(21)	(27)	− 20	(65)	38	73
	10,478	9,727	+ 8	8,000	7,490	7,014
	6,904	6,269	+ 10	4,605	3,510	3,128
Provision for United States and Canadian taxes on income	3,257	2,817	+ 16	2,117	1,677	1,575
Income from continuing operations	3,647	3,452	+ 6	2,488	1,833	1,553
Loss from discontinued operations	52	27	+ 92	98	23	10
Income before extraordinary charges	3,595	3,425	+ 5	2,390	1,810	1,543
Extraordinary charges	132	—	—	—	626	—
Net Income	$ 3,463	$ 3,425	+ 1	$ 2,390	$ 1,184	$ 1,543
Per share of common stock:						
Income from continuing operations	$1.84	$1.78		$1.28	$.94	$.79
Loss from discontinued operations	(.02)	(.01)		(.05)	(.01)	—
Extraordinary charges	(.07)	—		—	(.33)	—
Net Income	$1.75	$1.77		$1.23	$.60	$.79
Dividends declared	$ .60	$ .60		$ .50	$.50	$.44

Amounts shown for the years 1963–1966 have been restated to give retroactive effect to the poolings of interests during 1967 with Lucas-Milhaupt, Inc. and Maryland Specialty Wire, Inc.

Extraordinary charges relate to the loss (net of tax) on disposition of certain assets of discontinued divisions in 1967 and to the write-off of an intangible asset in 1964.

Handy & Harman and Subsidiaries

Consolidated Balance Sheet

Assets

	December 31, 1967	1966
Current assets:		
Cash	$ 7,922,167	$ 5,892,626
Marketable securities—at cost and accrued interest		30,781
Notes and accounts receivable (less allowance for doubtful: 1967—$210,481, 1966—$177,413)	22,431,094	15,187,017
Metals due from customers	339,312	533,703
Inventories—at cost (Note 2)	36,352,814	35,052,185
Prepaid expenses and deposits	563,129	661,560
Total current assets	67,608,516	57,357,872
Investments in and advances to 50%-owned companies—at cost (Note 3)	703,905	598,504
Property, plant, and equipment—at cost (Note 4)	20,726,011	18,281,894
Less accumulated depreciation and amortization (Note 4)	8,662,748	7,794,022
	12,063,263	10,487,872
Other assets (Note 1)	333,148	99,426
	$80,708,832	$68,543,674

Liabilities and Shareholders' Equity

	December 31, 1967	1966
Current liabilities:		
Notes payable	$48,525,000	$29,337,500
Current maturities of long-term debt (Note 5)	100,801	87,000
Liability to customers for metal	94,516	11,762,798
Accounts payable	4,481,899	3,091,553
Accrued liabilities:		
Payrolls, smelter charges, and other expense	814,625	945,901
United States and Canadian taxes on income	1,509,819	1,418,204
Other taxes	417,054	393,478
Total current liabilities	55,943,714	47,036,434
Long-term debt, less instalments due within one year (Note 5)	971,729	1,130,818
Commitments and contingent liabilities (Note 6)		
Shareholders' equity:		
Common stock—3,000,000 shares of par value $1 authorized; issued: 1967—1,997,700 shares, 1966—1,945,208 shares (Note 7)	1,997,700	1,945,208
Capital surplus	3,628,954	2,561,320
Retained earnings	18,693,988	16,209,674
	24,320,642	20,716,202
Deduct treasury stock: 1967—19,871 shares, 1966—20,991 shares, at cost	527,253	339,780
Total shareholders' equity	23,793,389	20,376,422
	$80,708,832	$68,543,674

Handy & Harman and Subsidiaries

Consolidated Statement of Income

	Year Ended December 31, 1967	1966
Sales of products and service revenues	$182,518,818	$170,925,779
Cost of products and services	165,136,574	154,929,501
Gross profit	17,382,244	15,996,278
Selling, general, and administrative expense	8,108,166	7,712,202
	9,274,078	8,284,076
Other deductions (income):		
Interest on loans	2,391,344	2,042,026
Other—net	(21,290)	(26,611)
	2,370,054	2,015,415
	6,904,024	6,268,661
Provision for United States and Canadian taxes on income	3,257,000	2,817,000
Income from continuing operations	3,647,024	3,451,661
Loss from discontinued operations, less related Federal income tax effect: 1967—$47,500, 1966—$83,400 (Note 8)	51,565	26,893
Income before extraordinary charge	3,595,459	3,424,768
Extraordinary charge, net of Federal income tax ($94,600) (Note 9)	132,174	
Net income for the year	$ 3,463,285	$ 3,424,768
Per share of common stock (Note 11):		
Income from continuing operations	$ 1.84	$ 1.78
Loss from discontinued operations	(.02)	(.01)
Extraordinary charge, net of tax	(.07)	
Net income	$ 1.75	$ 1.77

Consolidated Statement of Shareholders' Equity

Year Ended December 31, 1967

	$1 Par Value Common Stock	Capital Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Cost	Total Shareholders' Equity
Balance, January 1, 1967:						
As previously reported	$1,608,520	$2,169,749	$13,841,893	18,320	($303,635)	$17,316,527
Add amounts applicable to companies acquired in poolings of interests	336,688	391,571	2,367,781	2,671	(36,145)	3,059,895
	1,945,208	2,561,320	16,209,674	20,991	(339,780)	20,376,422
Net income for the year			3,463,285			3,463,285
Net income of pooled companies excluded from consolidated statement of income (Note 1)			115,613			115,613
Cash dividends on common stock—$.60 per share			(1,059,461)			(1,059,461)
Cash dividends paid by Maryland Specialty Wire, Inc., prior to pooling			(35,123)			(35,123)
Sale of common stock in public offering	50,992	1,046,728		(33,320)	577,385	1,675,105
Stock options exercised	1,500	20,906				22,406
Common stock purchased for treasury				32,200	(764,858)	(764,858)
Balance, December 31, 1967	$1,997,700	$3,628,954	$18,693,988	19,871	($527,253)	$23,793,389

Changes in shareholders' equity during 1966 were: preferred stock redemption ($152,700); exercise of stock options resulting in credits to common stock of $1,800 and capital surplus $25,088; increase in retained earnings of $1,912,198 (net income $2,874,808 less preferred and common dividends paid, $1,909 and $960,701, respectively; and 12,172 shares of treasury stock acquired at a cost of $216,596).

Source and Use of Working Capital
Year Ended December 31, 1967

Working capital, January 1, 1967		$10,321,438
Source:		
Net income for the year	$ 3,463,285	
Depreciation	1,058,826	
Net income of pooled companies for short period credited to retained earnings	115,613	
Sale of common stock	1,697,511	6,335,235
Use:		
Fixed assets acquired—net	2,577,817	
Repayments on long-term debt	198,159	
Dividends paid	1,094,584	
Purchase of treasury stock	764,858	
Investments and other	356,453	4,991,871
Net increase		1,343,364
Working capital, December 31, 1967		$11,664,802

Notes to Financial Statements

Note 1—Principles of consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries. The accounts of the Canadian subsidiaries were translated at appropriate rates of exchange. All significant intercompany items have been eliminated.

Lucas-Milhaupt, Inc. and Maryland Specialty Wire, Inc. were acquired during 1967 in exchange for 336,688 shares of the Company's common stock. These transactions have been accounted for as poolings of interests and, accordingly, the financial statements for 1966 have been retroactively restated. The results of operations of Lucas-Milhaupt, Inc. are for its fiscal year ended October 31. The results of operations of Maryland Specialty Wire, Inc., which operated on the basis of a 52/53 week fiscal year ending approximately May 31, have been recast to reflect operations for the 12-month periods ended approximately November 30 in each year. Net income of pooled companies for the short periods ended December 31, 1967 have been credited directly to retained earnings. Effective January 1, 1968 the pooled companies will operate on a calendar year basis.

On December 29, 1967 the Company's Canadian subsidiary acquired for cash all the outstanding shares of Ipsenlab of Canada, Ltd. This transaction has been accounted for as a purchase and, accordingly, the results of operations of this newly acquired subsidiary are not included in the accompanying consolidated financial statements. The excess of cost of investment in Ipsenlab over net assets as shown by its books is included in other assets in the amount of $202,655 at December 31, 1967. Until completion of an appraisal, the portion of such excess allocable to tangible assets is not determinable.

Former shareholders of companies acquired in pooling of interests transactions have warranted and represented that they will reimburse the Company for any undisclosed liabilities, and have placed 71,325 shares of the Company's common stock in escrow to secure such warranties and representations.

Note 2—Inventories

	December 31, 1967	December 31, 1966
Precious metals and precious metal content of alloys and of products in various stages of manufacture	$29,805,191	$29,345,697
Base metals, factory supplies, and raw material	2,598,684	2,324,930
Domestic subsidiaries:		
Finished goods	1,623,851	1,536,419
Work in process	1,432,534	1,206,857
Preforms	892,554	638,282
	$36,352,814	$35,052,185

Precious metal inventories in the amount of $28,470,656 at December 31, 1967, and $28,026,808 at December 31, 1966, are stated at cost as determined under the last-in, first-out method. The value of such inventories, principally silver, based on market quotations at these dates ($2.10 per ounce in 1967 and $1.293 in 1966) was $26,570,500 and $9,768,311, respectively, in excess of stated value. Other inventories are stated at cost or market, whichever is lower. It is not practicable to classify inventories of precious metals or preforms as to stage of completion.

Handy & Harman and Subsidiaries

Note 3—50%-owned companies

Investments in and advances to 50%-owned companies exceeded the Company's equity therein by approximately $207,000 at December 31, 1967.

Note 4—Property, plant, and equipment

Property, plant, and equipment comprised the following:

	1967	1966
Land	$ 528,565	$ 526,187
Buildings	7,116,530	5,721,457
Machinery and equipment	11,492,564	9,942,717
Furniture and fixtures	791,382	759,457
Automobiles	164,902	146,696
Improvements to leased property	247,632	244,769
Construction in progress	384,436	940,611
	$20,726,011	$18,281,894

Depreciation for 1967 and 1966 was $1,058,826 and $945,782, respectively. The Company and its bearing and tubing subsidiaries provide for depreciation on the straight-line method, except that major factory equipment of the bearing subsidiary acquired prior to December 31, 1965 is depreciated on the sum-of-the-years digits basis. Other subsidiaries compute depreciation principally on the sum-of-the-years digits and declining-balance bases.

Note 5—Long-term debt

	1967	1966
Mortgage loans:		
5½%, payable in quarterly instalments of $9,375, balance due 1969	$ 243,750	$ 281,250
5½%–6½%, payable in varying amounts to 1969	47,500	137,125
5½%, payable in monthly instalments of $1,302 including interest, due 1973	69,159	82,493
5½% chattel mortgage, payable in annual instalments of $6,912, due 1971	22,021	
Other long-term notes:		
5%, payable in annual instalments of $27,350, balance due in 1973	174,100	201,450
6% notes due in 1970		35,500
5⅝%, payable in annual instalments of $40,000 commencing 1968, balance due 1979	480,000	480,000
Non-interest-bearing note, payable in annual instalments of $12,000 to 1970	36,000	
	1,072,530	1,217,818
Less instalments due within one year	100,801	87,000
	$ 971,729	$1,130,818

Note 6—Commitments and contingent liabilities

The Company is lessee under one lease expiring in 1981 with an annual rental of $33,000 and under another expiring in 1982 with a current annual rental of $203,000 ($33,000 annual rents recoverable under a sublease expiring in 1971).

Commitments at December 31, 1967 for additional plant and equipment were approximately $605,000.

Note 7—Stock options

At December 31, 1967, 96,700 shares of common stock were reserved for issuance under the 1965 Stock Option Plan. Options for 46,700 shares at $14.94 per share granted in 1965, and for 5,000 shares at $25.50 per share granted in 1967, were outstanding at December 31, 1967, of which 26,700 were exercisable at that date. Options for 1,500 shares at $14.94 per share were exercised during 1967. The excess of proceeds over the par value of such shares sold was credited to capital surplus.

Note 8—Loss from discontinued operations

Results of operations discontinued as of June 3, 1967 are summarized as follows:

	1967	1966
Net sales	$283,043	$522,604
Costs and expenses	382,108	632,897
	(99,065)	(110,293)
Tax effect, including in 1966 net operating loss and investment credit carry forward	47,500	83,400
Loss	($ 51,565)	($ 26,893)

Note 9—Extraordinary charge

The operations of two divisions of Maryland Specialty Wire, Inc. were discontinued in 1967, prior to pooling. Certain assets, principally inventories and property, plant, and equipment, were sold at a loss of $132,174 (net of $94,600 tax benefit).

Note 10—Retirement plans

The Company and certain of its subsidiaries have non-contributory retirement plans for the benefit of their employees. Charges to operations for the years 1967 and 1966 were $871,568 and $771,386, respectively, which amounts include amortization of past service cost over a period of approximately 30 years from the inception of the respective plans. The Company's policy is to fund pension costs accrued.

Note 11—Earnings per share of common stock

Based on the average number of shares outstanding during each year adjusted retroactively to include 336,688 shares issued in connection with pooling of interests transactions described in Note 1. Potential dilution of earnings per share of common stock, assuming exercise of all outstanding stock options, is not material.

Opinion of Independent Accountants

HURDMAN AND CRANSTOUN
Certified Public Accountants

140 Broadway
New York, N.Y. 10005

To Directors and Shareholders of Handy & Harman

We have examined the consolidated balance sheet of Handy & Harman and its subsidiaries as of December 31, 1967, the related consolidated statements of income and of shareholders' equity, and the statement of source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of Handy & Harman and its subsidiaries consolidated at December 31, 1967, the results of its consolidated operations, and the changes in shareholders' equity and in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hurdman and Cranstoun
Certified Public Accountants

February 8, 1968

Products & Services

PRODUCTS

Easy-Flo, Sil-Fos and other Silver Brazing Alloys
Rolled Sterling Silver
Karat Golds and Gold Solders
Silver Contact Alloys
Bimetals and Trimetals
Brazing Powders and Pastes
Handy Flux
Handy Hi-Temp Brazing Alloys
Silver Powders and Flakes
Silver Oxide
999 "Plus" Fine Silver Anodes

"Special Refined" Grain Silver
Gold and Silver Wire
Dental Golds
Preforms, Rings and Metal Stampings
Gold Bars—Silver Bars
Platinum Metals
Silver Sintered Metals
Handy Silver Solders
Solder Flushed Silver Alloys
Handy Alumibraze
Small Diameter, Precision-Drawn Stainless, Carbon Steel and Nickel Alloy Tubing

Precision Roller and Needle Bearings and Bushings
Specialized Stainless Steel Products
Stainless Steel Specialty Wire and Wire Rope
Platinum Thermocouple Wire and Platinum Resistance Thermometer Sensors

SERVICES

Refining service for all forms of waste materials and scrap containing precious metals
Heat treating of ferrous and non-ferrous metals

Offices, Plants, Subsidiaries

EXECUTIVE AND GENERAL OFFICES
850 Third Avenue,
New York, N.Y. 10022

PRINCIPAL PLANT
Fairfield, Conn.

BRANCH PLANTS
Mt. Vernon, N.Y.
Los Angeles, Calif.

SALES AND SERVICE BRANCHES
East Providence, R.I.
Chicago, Ill.
New York, N.Y.

SALES OFFICES
New York, N.Y.
Cleveland, Ohio
Dallas, Tex.
Detroit, Mich.
Los Angeles, Calif.

HANDY & HARMAN TUBE CO., INC.
Norristown, Pa.

ORANGE ROLLER BEARING CO., INC.
Orange, N.J.

METALSMITHS DIVISION
Orange, N.J.

MARYLAND SPECIALTY WIRE, INC.
Cockeysville, Md.

HI-ALLOYS, INC.
(owned jointly with Stora of Sweden)
Cockeysville, Md.

PENNSYLVANIA WIRE ROPE CORP.
Williamsport, Pa.

LUCAS-MILHAUPT, INC.
Cudahy, Wisc.

ELECTRIC THERMOMETERS, INC.
(owned jointly with Degussa, West Germany)
Norwalk, Conn.

IN CANADA:

HANDY & HARMAN OF CANADA, LTD.
Toronto, Ont.

SALES OFFICE
Montreal, Quebec

IPSENLAB OF CANADA, LTD.
Toronto, Ont.

IN ENGLAND:

RIGBY-MARYLAND (STAINLESS) LTD.
(owned jointly with John Rigby & Sons, Ltd.)
Cleckheaton, Yorkshire

Handy & Harman

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